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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

DAILY DIGEST

JUL 26 1951

Date: _____

- NOTE: 1. This summary of significant reports has been prepared primarily for the internal use of the Office of Current Intelligence. It does not represent a complete coverage of all current reports in CIA or in the Office of Current Intelligence.
2. Comments represent the preliminary views of the Office of Current Intelligence.
3. Marginal letter indications are defined as follows:
- "A" - items indicating Soviet-Communist intentions or capabilities
 - "B" - important regional developments not necessarily related to Soviet/Communist intentions or capabilities
 - "C" - other information indicating trends and potential developments

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SECTION 1 (SOVIET)

"A" USSR. Comment on Appointment of New Soviet Minister of the Navy. The appointment as Soviet Navy Minister of Vice Admiral N. G. Kuznetsov, as in the case of the recent reappearance of Marshal Zhukov, marks the return from semi-retirement not only of a competent professional military man but also one previously known to be favorably disposed toward the West. In 1948 Kuznetsov was one of four high-ranking naval officers courtmartialed on charges of divulging military secrets during wartime. Kuznetsov was very cooperative in his wartime relations with the Allies, and the officers on trial were significantly accused of permitting information on German weapons to be passed to the British and Americans. Prior to 1948 the new Navy Minister enjoyed a distinguished career. He was People's Commissar of the Navy from 1939 until the unification of the defense ministries in 1946, when he became Deputy Minister of the Armed Forces. During the period 1939-47 he was also Commander-in-Chief of the Soviet Navy. His demotion in January 1947 to Chief of Naval Training Establishments preceded his subsequent disgrace.

several reasons may be advanced to explain Kuznetsov's previous dishonorable retirement and his present return to active duty:

- (1) He may have been brought back to fill the need for competent professional as opposed to political leadership of the Navy.
- (2) He was believed to be an opponent of the conception of unification at the time that the Ministry of Armed Forces was created.
- (3) Although possibly a victim of high-level personal frictions, Kuznetsov may have been purged by the Party to serve as an example to other budding professional "independents".
- (4) His appointment could bear some relationship to the recently launched Soviet policy of friendship and understanding with the English-speaking world.

"C" EASTERN EUROPE. HUNGARY. Establishment of New Cooperatives Again Permitted. The Hungarian Ministry of Agriculture has lifted the ban of 26 February which temporarily limited the establishment of agricultural cooperatives. As of 22 July licenses for setting up producer groups will again be issued. COMMENT: The five month suspension of the establishment of agricultural cooperatives was apparently undertaken to free rural party leaders and peasants for the tasks of planting and harvesting the crops and to encourage the productivity of small hand holdings. It did not mean, however, a relaxation of the

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drive to socialize agriculture since efforts to increase the membership of existing cooperatives and the campaign to eliminate the kulaks were not halted. There have been indications that the agricultural socialization program will be accelerated after the harvest.

"B" POLAND. Second Quarter of Economic Plan for 1951 Reported Fulfilled. Poland's State Economic Planning Commission has announced that the second quarter goals of the 1951 economic plan have been fulfilled. All industries noted in the announcement showed higher production than in the second quarter of 1950. However, for the second consecutive quarter production targets for crude oil, machine tools, locomotives and railway rolling stock were not attained. Overall industrial production was announced as having overfulfilled the plan by 2.3 percent. Construction targets in the Ministry of Road and Air Transport were specifically mentioned as not achieved for the second quarter. The announcement also noted that although the percentages of various available consumer goods had increased during the second quarter, the plan for increased consumer goods sales had not been completely fulfilled. US Embassy Warsaw comments that this report reveals no sensational developments when compared to that of the first quarter. [REDACTED] COMMENT: This announcement by the State Economic Planning Commission seems to bear out previous reports of continued Polish emphasis on long-range development of basic industries.

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"A" YUGOSLAVIA. Molotov Speech Alarms Yugoslav Leaders. High Yugoslav officials are concerned over the Molotov speech in Warsaw because they feel that it is the type of soundoff which may be expected if the USSR decides to attack Yugoslavia. In a conversation with Ambassador Allen on 23 July, Tito alluded to this speech and emphasized his concern that the USSR would seek compensation elsewhere for its undoubted defeat in Korea. [REDACTED] COMMENT: The Satellites are currently capable of launching a major attack on Yugoslavia with little or no warning and Soviet propaganda attacks on Yugoslavia have recently reached an all time peak. There is no new evidence, however, that a Satellite attack is imminent. Molotov's brief reference to Yugoslavia in his Warsaw speech, in which he stated that the Tito regime "cannot last long," appears to be more of a warning to Poland as to the course that a Satellite cannot take than a threat to Yugoslavia.

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"B" Peasants Withdraw from Cooperative Farms. Peasants throughout Yugoslavia are reportedly planning to leave cooperative farms on the expiration of their three year contracts, principally because the government has failed to raise the standard of living on the cooperatives. The movement to resign from the cooperatives was attacked at a recent meeting in Skoplje by two leading Yugoslav officials who sought to placate the peasants with additional promises of reforms including a reduction in the prices of consumer goods. [REDACTED]

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[] COMMENT: Many peasants who joined cooperatives during the governmental drive of 1948 and 1949 will soon be eligible to withdraw under a law which permits optional withdrawal after three years. [] peasants in many cooperatives are planning mass resignations. Over 20% of the Yugoslav farm land is currently organized into cooperatives but their number will diminish rapidly within the next year unless the government succeeds in discouraging these mass resignations.

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SECTION 2 (EASTERN)

"C" CEYLON. Attendance at Japanese Peace Treaty Conference Probable. The Permanent Secretary of the Ceylonese Ministry of External Affairs says that his Government expects to name Ambassador to the US Corea as its delegate to the San Francisco conference and that he believes there will be no difficulty over Ceylon's signing the Japanese Peace Treaty. [redacted]

[redacted] COMMENT: Pakistan and Ceylon are both expected to participate in the conference. India has not yet indicated its decision on the matter, but it will probably also attend.

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"B" BURMA. Ne Win Resignation Reported. [redacted]

[redacted] Gen Ne Win has submitted his resignation to the Defense Minister. [redacted]

COMMENT: There is no doubt that Ne Win's resignation will be accepted. The Government will have great difficulty in selecting a suitable replacement.

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"B" Karens Reportedly Being Trained by Chinese Communists. A well-informed Karen source has told the US Embassy in Rangoon that Thakin Than Tun, leader of the Burma Communist Party, arranged for the training in Communist China that some Karens are now receiving. The source claims that shortages of medicines and ammunition are a factor in forcing the Karens to cooperate with the Communists. [redacted] COMMENT: There are still no indications of growing ideological compatibility between Karens and Communists. The Karens, however, in their present plight are not likely to resist forever the temptation to accept assistance from any source that is willing to aid them. An effective Karen-Communist coalition, supported by Communist China, would constitute a grave threat to the Burmese Government.

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"C" Burma Workers and Peasants Party (BWPP) Threatens to go Underground. The Secretary General of the BWPP recently declared that the Burmese Government's "repressive policy" would drive his party underground. The statement grew out of a protest against the Government's action against BWPP leaders who had been organizing a program of forced plowing. The BWPP also complained of discrimination against its members in the distribution of agricultural loans. [redacted] COMMENT: The BWPP is nothing more or less than an aboveground Communist Party. It is encouraging that the Government is taking steps to restrict BWPP activities. Although this extremely vocal Communist front has some following, its decision to move underground would probably not enhance greatly the capabilities of the Communists who are already in open insurrection.

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"B" INDOCHINA. French Suspicious of Reported Viet Minh Mediation Offer. A reported Viet Minh broadcast suggesting mediation by India and China of the conflict in Indochina has been received by the French with utmost reserve. The French point to a continuation of Viet Minh broadcasts demanding the withdrawal from Indochina by all French military forces before

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peace can be discussed. Such broadcasts, the French feel, contradict the "peace offer." [REDACTED] COMMENT: Rumors of possible peace negotiations have been frequent in Indochina since the Korean truce talks began. Last week the Viet Minh broadcast without comment a pre-Communist French newspaper's proposal of negotiations between the French and Viet Minh.

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"B" CHINA. Increased Chinese Communist Aid Scheduled for Indochina. Decisions to increase Chinese Communist aid to Viet Minh to 10,000 tons per month, beginning in August, and to organize three Chinese armies to be infiltrated into Viet Minh territory for "voluntary service," were reportedly made at a July conference of Viet Minh, Soviet, and Chinese representatives presided over by YEH Chien-ying, Governor of Kwangtung. [REDACTED]

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COMMENT: Reliable figures on the extent of Chinese Communist aid to the Viet Minh forces in Indochina are lacking, but the total of 10,000 tons referred to above is considered suspect, when compared with a Hong Kong press report of the same meeting which stated that 1,000 tons would be forthcoming on a monthly basis. The urgency ascribed to the completion of rail and road connections with Indochina suggests the probability of intentions to augment considerably the flow of supplies into that area. The infiltration of unknown numbers of Chinese Communist troops across the border is now accepted. To date, however, none of them have been identified in combat operations. While the potential to commit three armies of "volunteers" is generally conceded, there are no reliable indications of Chinese intentions to implement such a plan at this time.

"C" Chinese Nationalists Predict New Communist Off-shore Island Operations. A concentration of eight gunboats, four steamers, and 40 motor junks in the Haimen area of the Chekiang coast is believed, by Chinese Nationalist military officials, to indicate the probability of a Communist attack on the Tachen Islands in the near future. [REDACTED]

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COMMENT: Predictions of Chinese Communist invasions of these and other off-shore islands have been frequently received over the past six months. The ability of the Red forces in the area to seize the Tachen Islands (20 miles from Haimen), presently held by 1,000 Nationalist marines and a "guerrilla column," is generally conceded. [REDACTED] Nationalist reluctance to strengthen their defenses on the Islands, held valuable as bases for guerrilla and intelligence operations, for fear of provoking a Communist assault. [REDACTED]

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"C" Arrest of Two More Americans. [REDACTED] the arrest of a US businessman in Tientsin in mid-June and of another US businessman in Shanghai in mid-July. The latter is the first case known to US ConGen Hong Kong of the arrest of an American for failure to discharge alleged obligations to Chinese employees. ConGen believes 19 Americans to be under arrest in Communist China. [REDACTED]

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[redacted] COMMENT: Both Americans are likely to be detained for months. [redacted]

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"C" JAPAN. Socialists Refuse to Participate in Treaty Conference. The Central Committee of the Socialist Party has decided that the party will not be represented in the Japanese delegation to the peace conference on the grounds that the signing of the treaty should be done by the Government at its own responsibility. [redacted] COMMENT: The Socialist Party has continuously maintained its opposition to a peace treaty which did not include the Communist powers. Its decision not to participate in the delegation at San Francisco would be consistent with its past policy. At the same time the party is left free to capitalize on any unfavorable consequences of the separate peace, including reaction to those terms of the present treaty which the Japanese consider unsatisfactory.

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SECTION 3 (WESTERN)

"B" GERMANY. West German Lower House Adjourns after Productive Session. US officials in Bonn characterize the recently completed session of the West German Parliament's Lower House as "decidedly productive". They feel that the new federal Parliament has developed rather well in its first two years, having acquired considerable experience, stature, and ability as a legislative body. Extremist parties of both Left and Right have been held very well in check. Contrary to original fears, the Parliament has refused to act as a rubber stamp for the government. Relations with the government, however, still leave much to be desired, because of the

[redacted] manner in which Chancellor Adenauer operates. Despite its good record of legislation, the Lower House has fallen behind in its budgetary work, and has a backlog of some important unfinished business, such as equalization of burdens legislation and ratification of the Schuman Plan.

COMMENT: The first postwar West German Lower House, elected in August 1949, has often been under fire because of excessively rigid and stodgy procedure and dull sessions. In recent months, however, a change in floor leadership has produced some improvement. A new set of standing rules may also help to streamline procedures in the next session, which opens in September. A legislative "question hour", similar to the British House of Commons procedure, will be included.

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"B" FRANCE. Gaullists Unlikely to Profit Immediately from Cabinet Crisis. Following Radical Socialist Rene Mayer's failure by a wide margin to be

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invested by the Assembly as Premier, President Auriol turned next to Popular Republican Georges Bidault and then Rightist Independent Paul Reynaud. Foreign Minister Schuman, another leader of the Catholic-oriented Popular Republicans, had previously declined to attempt to form a government, and most of this party's deputies abstained in the vote on Mayer. The Gaullists' strength in the Assembly will enable them to continue to use the now critical question of aid to church schools in an effort to divide the middle-of-the-road parties of the old coalition and prove that a new majority built around the Gaullists is required. Reynaud recently stated that the only majority possible at present would be one based on those favoring aid to church schools and hence including the Gaullists, but in the debate on Mayer's investiture there was no sign of a favorable response to the Gaullists' invitations to rally to them. Logically, the remaining candidates who could succeed in forming a government are the moderate leaders Pleven and Queuille. [REDACTED]

[REDACTED] COMMENT: All cabinet crises in the past three years were aggravated by the Socialists demanding wage increases, and hence the Popular Republicans' intransigence on the church school issue points up a further serious weakening of the old majority. The Gaullists are not likely to be included in any Government receiving Assembly approval in the near future.

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Government Will Impede Travel of Youth Festival Delegates.

The Minister of Interior has arranged to delay the travel of French delegates to the Berlin Youth Festival (5-19 August) even though he cannot refuse passports outright. The French have informally arranged for the West German consulate in Paris to "drag its feet" in the issuance of transit visas. Arrangements also are being made to refuse French transit visas to known Communists. The French Foreign Office, however, fears that Austria may become a loophole for those Communists whose transit visas through Germany have been held up, and has suggested that authorities in Innsbruck and Salzburg refuse to issue the grey cards required for entrance into Berlin. [REDACTED]

COMMENT: In spite of these efforts, several thousand French delegates to this Congress will probably reach Berlin. At the most, travel of only the least important of the delegates will be impeded, since the hard-core leaders, aware of French inclinations, have probably already arranged for transit documents, or will by-pass France.

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"C" Workers Win Concessions in Strategic Sulphur Industry. Two labor disputes, one of 5 months' duration, the other of 3 weeks, in the sulphur industry which produces one of Italy's few strategic raw materials, were recently settled to the advantage of workers in central Italian and Sicilian mines. Meanwhile, a strike was reported at another mine in Sicily. [REDACTED] COMMENT: Strikes in the sulphur industry are a part of the Communist campaign to hamper Italian defense production. The Italian Government is putting pressure on management to grant concessions in order to minimize time lost in the production of a strategic commodity.

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"B" UNITED KINGDOM. Cabinet Against Show of Force in Middle East at This Time. The Cabinet has rejected the recommendation of the British Chiefs of Staff to place British troops in Basra and Kuwait, deciding instead to "wait and see", and to avoid provocative action at this time. The Chiefs of Staff themselves had previously rejected such a recommendation from the British Middle Eastern Commanders-in-Chief, but following the assassination of Abdullah, they reportedly came to the conclusion that a show of force in Iran was now required as a deterrent to new incidents and further deterioration in the Middle East. [REDACTED]

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"C" Attitude on East-West Trade Meetings. A high UK Foreign Office official has insisted that, contrary to previous indications [REDACTED], the British Government is planning to participate fully in the preliminary Economic Commission for Europe meeting on East-West trade, scheduled for 20 August. The UK expects that this will deal mainly with grain deliveries by the Soviet bloc, a matter on which the UK still seeks satisfaction. Should a general conference on East-West trade take place, however, the government would have to review its position. The British official explained that his colleague in Paris who had so strongly opposed the meetings "had not read his papers". [REDACTED] COMMENT: Gradual UK agreement to the tightening of Allied controls on exports of strategic goods to the Soviet bloc

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threatens the flow of raw materials to the UK from Eastern Europe. The UK is now concentrating its efforts on maintaining imports of certain key commodities, such as grain, in the face of this handicap, and in so doing finds itself to some extent opposed to the US. [REDACTED]

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"C" CUBA. New Legislation Will Prohibit Shipment of US Embargo List Items to Soviet Orbit. The Cuban Minister of State advises that legislation is now being drafted which will prohibit the export and re-export from Cuba of materials considered essential to national security interests. An effort is being made to cover the entire US embargo list. Pending the promulgation of this legislation, Commerce Minister Zaydin on 19 July issued a decree prohibiting the export or re-export of any products to Soviet Russia, satellite countries, and Red China. [REDACTED]

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[REDACTED] COMMENT: Since 1 January, an increasing effort has been made by Soviet satellites, notably Hungary and Czechoslovakia, to obtain items such as steel scrap, henequen fiber and hides. Prior to the Kem Amendment, in the absence of a statement of US policy pertaining to the trade of Latin American nations with the Soviet satellites, the US Embassy, whenever contacted by Cuban firms requesting its views on such transactions, could only point out that the US itself did not export strategic items to the Soviet Bloc. The Embassy has been unable to obtain any information indicating that there has been any considerable amount of ship-
~~or transshipment of strategic commodities~~ destined for the Soviet Bloc.

"C" URUGUAY. Communists Claim Credit for Defeating Raise in Bus Fare. [REDACTED]

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[REDACTED] "In the referendum on acceptance or rejection of the raise in municipal bus fares in Montevideo on 22 July, 65,792 votes were cast for rejection and 44,747 for acceptance. The defeat of the increase in fares represents a resounding victory for the Communist Party." [REDACTED]

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[REDACTED] COMMENT: It was expected that if the raise in bus fare were defeated by the referendum, the Communists would claim the credit. It is true that the Communists initiated the campaign to defeat the fare raise, but the campaign was successful only because they were quickly joined by almost all of the other political elements which oppose the present Colorado administration.

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26 July 1951

SECTION 1 (SOVIET)

"A" TRIESTE. US Political Adviser Recommends US Policy Shift on Trieste. US Political Adviser Unger believes that the only possible solution of the Trieste issue is the definitive division of the Territory on ethnic lines whereby Italy would receive practically all of Zone A and a substantial coastal strip in Zone B. Since neither Italy nor Yugoslavia would willingly accept such a solution, Unger recommends that the US radically change its current policy toward Trieste and exert pressure for an early Italian-Yugoslav agreement. The US Political Adviser points out that, if an early definitive solution is not reached, the US must be prepared to accept continued and probably increasingly hostile agitation in Trieste and Italy and a hardening Yugoslav attitude toward Italy.

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COMMENT: The US has officially supported the return of all of Trieste to Italy since March 1948, with the recommendation that Yugoslavia and Italy settle the issue bilaterally. While Yugoslav leaders have stated that they would be willing to reach a bilateral settlement with some slight rectifications of the Zone B border in Italy's favor, it is most unlikely that these concessions would be sufficient to satisfy Italian demands. Ambassador Allen, noting the increased seriousness with which the Yugoslav Government has viewed recent Italian agitation, has urged US avoidance of further involvement in the Trieste issue which can be settled by evolution. Allen further recommends that the US emphasize to Italy and Yugoslavia that common security against Soviet aggression is their primary problem.

SECTION 2 (EASTERN)

"A" PHILIPPINES. Denunciation of Japanese Peace Treaty by Philippine Legislator May Preclude Philippine Signature. The US Ambassador in Manila states that the 24 July speech of the Speaker of the Philippine House of Representatives is tantamount to assurance that the Philippines will not sign the Japanese peace treaty. The Speaker, who is closer to the "grass roots" than any other administration leader, is embarking on a tour of the

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islands to popularize his opposition to the treaty. Although his motives are mainly political, his stand will have a widespread effect and will heighten the intense emotions generated by the treaty. The Ambassador feels that "the situation" will progressively worsen. [REDACTED]

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COMMENT: The Speaker of the House is the most powerful political figure in the Philippines; he is also chairman of the incumbent Liberal Party and a probable contender for the presidency in 1953. While his speech was focussed on the reparations and security clauses of the Japanese treaty, he also directed a bitter diatribe against US foreign policy. Its purpose, and that of his proposed tour, presumably is to augment his own political prestige and to steal the initiative from the opposition party before the November electoral campaign begins in earnest. The effect of the speech and those scheduled to follow undoubtedly will make compromise on the treaty far more difficult.

"C" INDONESIA. Cabinet Approves Participation in Japanese Peace Treaty. The Cabinet has approved Indonesia's participation in the Japanese peace treaty conference, and will transmit its observations on the draft treaty by 5 August. A Foreign Office spokesman intimated to US Ambassador Cochran that these observations would include a request for reparations — particularly for money and property which the Japanese actually seized during the occupation of Indonesia. He stated, however, that the request would not be of any great dimension. [REDACTED]

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"B" CHINA. Indian Ambassador Wishes to Leave Peiping. A French doctor recently returned from Peiping states that Indian Ambassador Panikkar is no longer able to see Foreign Minister and Premier CHOU En-lai and wishes to leave Peiping. [REDACTED] COMMENT: Panikkar arrived in Peiping with great fanfare, and throughout 1950 had better contacts with top-level Chinese Communist officials than any other non-Communist representative. In recent months Panikkar's contacts have been greatly reduced, and [REDACTED] disillusioned with Peiping. It is not clear whether Panikkar's loss of contact has been responsible for his disillusion, or his disillusion responsible for his loss of contact. In either case, if Panikkar is genuinely discouraged, he may be in an excellent position to correct certain naive views regarding Communist China which are held by Indian Prime Minister Nehru.

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